

STUDY SESSION
GENERAL
OPERATING FUND -
BUDGET BALANCING
BLUEPRINT

PURPOSE

Present the proposed outline of the FY10-11 budget and obtain Council input to allow completion of the Proposed Budget.

FY10-11PROCESS TO DATE

- ✓ June 23, 2009: Initial Budget Study Session for FY10-11
- ✓ September 29, 2009: Report on preliminary work done – potential expenditure reductions and process refinement
- ✓ November 4 and 7, 2009: Community Budget Briefing Workshops
- ✓ January 26, 2010: Budget Workshop to review and confirm budget strategy, approach and principles
- ✓ February 23, 2010: Review potential General Operating Fund expenditure reductions
- ✓ April 6, 2010: Review potential revenue/fee for service adjustments and a proposed recreation program cost recovery policy
- ✓ April 13, 2010: Review goals
- ✓ April 20, 2010: Review proposed Capital Improvement Program
- May 4, 2010: GOF Budget Balancing Blueprint; Budget Report-other funds

STATUS OF FY09-10

- Structural Deficit:
 - Originally projected \$6.0 M structural deficit
 - Reduced to \$1.6 M with adoption of FY09-10 budget (\$ 88.3 M Expenditures / \$ 86.7 M Revenue)
 - Mid-year (February) estimate of \$2.4M structural deficit for current fiscal year (due to lower revenue estimates)
 - Updated estimate \$1.6 M

STATUS OF FY09-10 (cont.)

- “Cash” Revenue/Expenditure Balance:
 - Revenues estimated essentially as budgeted
 - Budgeted savings \$2.6 M
 - Current estimated savings \$4.4 M
 - \$1.6 M not required from Budget Contingency Reserve

BUDGET CONTINGENCY RESERVE

- Estimated balance at close of FY09-10: \$7,750,000
- FY10-11 may need to use:
 - \$1.0 M for limited-period expenditures/supplemental reserve funding
 - \$850,000 for bringing the General Fund Reserve to Policy balance (to be determined with Proposed Budget)
 - Fee for service “phase in” funding may be needed

PROJECTED “STATUS QUO” FY10-11 BUDGET

- Revenues: \$87.0 M
- Expenditures: \$91.3 M
 - Deficit (\$4.3 M)
- Causes of Deficit:
 - Revenues only projected to grow \$329,000
 - Expenditures projected to grow \$3.2 M
 - Compensation cost increases \$2,766,000
 - Services and supplies \$187,000
 - Net other \$204,000
 - Carryover of \$1.6 M structural deficit

GENERAL OPERATING FUND REVENUE PERFORMANCE

• FY06-07 (actual)	\$ 85,141,000
• FY07-08 (actual)	\$ 88,140,000
• FY08-09 (actual)	\$ 87,963,000
• FY09-10 (estimated)	\$ 86,634,000
• FY10-11 (projected)	\$ 86,986,000

COMPONENTS OF FY10-11 COMPENSATION COST INCREASES

• “Cost-of-living” salary increases	\$773,000
• Merit/step salary increases	691,000
• Pension (PERS) costs rise	534,000
• Medical insurance cost rise (estimated)	663,000
• Retirees’ medical insurance cost rise	<u>105,000</u>
	\$2,766,000

“BUDGET BALANCING BLUEPRINT”

• Operational efficiencies	\$ 1.0 M
• Revenue/fee increases	1.0 M
• Compensation cost containment	1.0 M
• Expenditure (service/staffing) reductions (Tier 1)	<u>1.3 M</u>
	\$ 4.3 M

WHY NEED A STRUCTURALLY BALANCED BUDGET

- No quick/dramatic improvement in City revenues anticipated
- Will not be self correcting
- An unbalanced budget will likely prolong the number of years of “cut-back budgets”

OPERATIONAL EFFECIENCIES

- Organizational restructuring
- Cost allocation to appropriate funds
- Various cost saving measures

FEE FOR SERVICE/COST RECOVERY

- Reduce subsidies for services serving specific audiences
- “Market” pricing
- Lack of sufficient cost recovery will result in greater than otherwise needed reductions to services provided to all residents

FEE FOR SERVICE/COST RECOVERY

(cont.)

- Recreation Cost Recovery Policy – reviewed by Parks and Recreation Commission
- Parks and Recreation Commission recommendation on heritage tree permits/appeals
- “Phasing in” funding from Budget Contingency Reserve
- Supplemental report on Shoreline Regional Park parking fee

MAJOR REVENUE (FEE) CATEGORIES

• Recreation Fees	\$637,200
• Center for the Performing Arts	36,500
• Forestry	46,600
• Public Works	55,100
• Community Development	55,100
• Library Services	200
• Police Department	<u>221,900</u>
• Total	\$1,052,600

COMPENSATION COST CONTAINMENT

- Goal = \$1.0 M of \$2.8 M increase
- Not proposing a reduction in current compensation, just a slowing in the growth
- Meetings with employee organizations
- Outcome uncertain

EXPENDITURE REDUCTIONS

- Tier 1 = \$1.3 M
- Negative impacts – but less than alternatives
- 8.5 FTE positions / 2.5 FTE currently filled
- To whatever degree that goals are not met pertaining to fees for service or compensation cost containment, Tier 2, 3, or 4 reductions will need to be implemented to achieve a balanced budget

TIER 1 – EXPENDITURE REDUCTIONS

- Reorganization/administrative support reductions
- Internal support services reductions
 - Document Processing
 - Building maintenance
 - Public Works analytical support
 - Misc. staff support
- External service area reductions
 - Community Development technical assistance
 - Street maintenance
 - Police Assistant staffing
 - Library staffing

Total \$1,251,000

8.5 Positions (6.0 vacant; 2.5 filled)

TIER 2 – EXPENDITURE REDUCTIONS

- Additional internal support positions and Equipment Replacement Fund support
- External service area reductions
 - Community Development
 - Traffic Engineering
 - Cuesta/Rengstorff ranger services
 - Park/Tree maintenance
 - Additional Library staffing
 - Grant support for Mobile Library Service
 - Police Department – Records and Community Services Officer staffing/services

Total \$1,045,000

7.0 Positions (3.0 vacant; 4.0 filled)

TIER 3 – EXPENDITURE REDUCTIONS

- Additional internal support positions, additional Equipment Repl. Fund support and wholesale water rate for public landscape/parks
- External service area reductions
 - 50.0% reduction in Code Enforcement staffing
 - Multi-Lingual Outreach Program hourly staff
 - Library materials budget
 - Fire Department public education and outreach
 - Center for Performing Arts staff
 - Dedicated Graffiti and Shopping Cart Abatement staff
 - Downtown and Roadway landscape maintenance
 - Police Department – Records and CSO staffing

Total \$1,308,000

9.5 Positions (0.5 vacant; 9.0 filled)

TIER 4 – EXPENDITURE REDUCTIONS

- Public Works Transportation staffing
- Tree Maintenance
- Deer Hollow Farm staffing
- Library staffing and hours
- Additional CSO staffing in Police Department
- Additional Records staffing
- Reduction in nonprofit funding (15.0%)
- Additional \$100,000 reduction in Equipment Replacement funding

Total \$1,408,000

10.25 Positions (1.0 vacant; 9.25 filled)

OTHER GENERAL OPERATING FUND EXPENDITURE ISSUES

- City Council and Advisory Commission budgets
- 211 System request for funding
- Public Works Department transportation planning staffing
- Interest-based bargaining/meet-and-confer outside assistance
- Environmental Sustainability position
- Deer Hollow Farm

CHALLENGES AHEAD

- PERS:
 - \$7.6 M GOF estimated to grow to \$13.7 M GOF
 - +/- \$6.0M over the next 4 years
- Retirees' Health:
 - \$14.0 M of lump sum payments over last 10 years (GOF); \$11.0 M – other funds
 - \$300,000/yr to \$3.4 M/yr over last 10 years (GOF); \$50,000/yr to \$618,000/yr – other funds

LONGER-TERM BUDGET BALANCING STRATEGIES

Expenditures

- Containing the growth of enhanced/new services
- Containing the growth in annual compensation cost increases
- Containment of long-term benefit cost increases
- Deferring Capital Improvement Projects requiring increased maintenance and operating costs
- Review alternatives to reduce Workers' Compensation insurance costs
- Examination of additional opportunities for organizational/functional consolidations/reorganizations

LONGER-TERM BUDGET BALANCING STRATEGIES (cont.)

Expenditures (cont.)

- Examination of alternative service delivery models
- Review of service levels, including minimum staffing requirements in the Fire Department

Revenues

- Voter-approved tax measure
- Continued economic development initiatives
- Possible formation of a lighting and landscape district
- Possible formation of a downtown maintenance district and/or expansion of the downtown business improvement district

NEXT STEPS

- CIP Adoption – May 25
- Adoption of Major City Goals – June 1
- Budget Public Hearing – June 15
- Budget Public Hearing/Adoption of Budget – June 22

REQUESTED COUNCIL INPUT

- Overall strategy for achieving a structurally balanced budget
- Recreation Cost Recovery Policy
- Fees/cost recovery proposals
- Proposed expenditure reductions
- Identification of additional information needed